



CMP/MAY/2019/0013

15<sup>th</sup> May 2019

**Sh. Khalifa Bin Ebrahim Al Khalifa**

Chief Executive Officer

Bahrain Bourse

P.O Box 3203

Manama - Kingdom of Bahrain

Dear Sh. Khalifa,

**Subject: Results of GFH Financial Group's Webcast for Q1 2019 Financials**

Further to GFH's market notification dated 13<sup>th</sup> May 2019 on the subject, GFH is pleased to inform its shareholders and the markets about the successful live webcast session which was broadcasted online, Tuesday, 14<sup>th</sup> May 2019, at 2 p.m. Kingdom of Bahrain time.

Attached herein is the presentation discussed during the session and the transcript of the live webcast.

Yours Sincerely,

A handwritten signature in blue ink, appearing to be 'Nabeel Mirza', enclosed within a blue oval shape.

**Nabeel Mirza**

Head of Compliance



GFH Financial Group BSC (c)

A photograph of the Dubai skyline at sunset, featuring several skyscrapers with their lights on, reflected in the water in the foreground. The sky is a mix of orange, yellow, and blue.

GFH Financial Group Q1 2019 Financial Performance  
Presentation to Investors and Analysts  
14 May 2019

# Important Notice and Forward-Looking Statements

## Important notice

The information set out in this presentation and subsequent webcast does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

## Forward-looking statements

This presentation and subsequent webcast may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “Forward-Looking Statements”). Any such Forward-Looking Statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgments, which may or may not prove to be correct, and there can be no assurance that any of the matters set out in Forward-Looking Statements are attainable, will actually occur or will be realized or are complete or accurate. Forward-Looking Statements are statements about the future and are inherently uncertain and generally based on stated or implied assumptions. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any Forward-Looking Statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such Forward-Looking Statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update them if circumstances or management’s beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any Forward-Looking Statements.

## Agenda

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1. Financial performance – First quarter 2019
2. Q & A

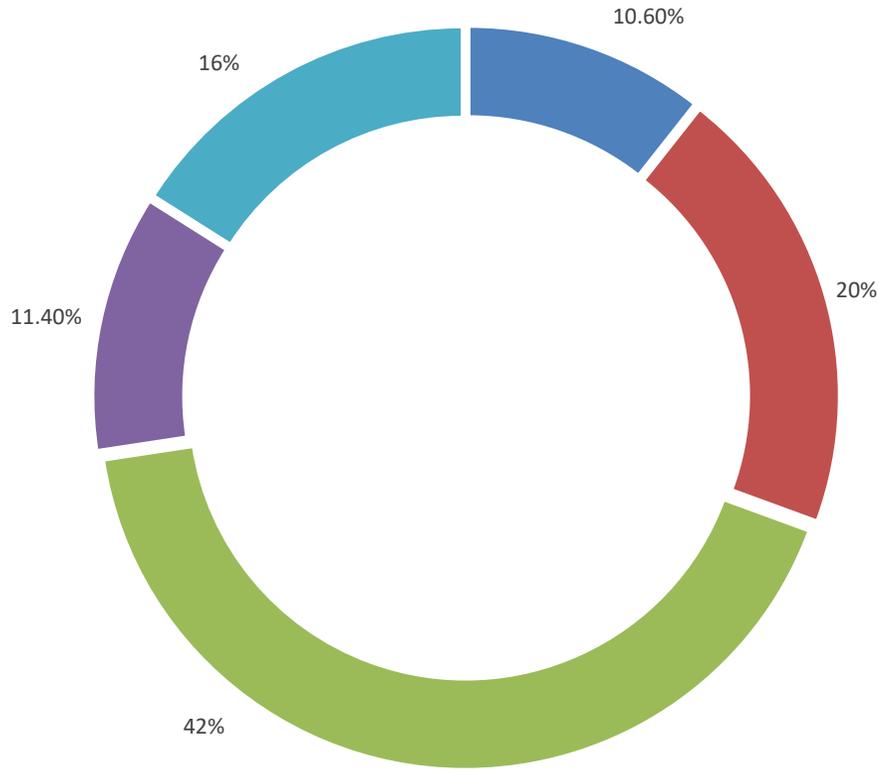
## Financial Performance - Q1 2019

US\$ m	Q1 2019	Q1 2018
Investment banking income	7.4	9.4
Commercial Banking income	14.0	11.3
Proprietary and co-investment income	29.4	39.4
Real Estate Income	8.0	3.8
Treasury and Other income	11.3	2.0
<b>TOTAL INCOME</b>	<b>70.1</b>	<b>65.9</b>
Finance Expenses	23.7	7.1
Other Operating Expenses	21.3	20.6
<b>TOTAL EXPENSES</b>	<b>45.0</b>	<b>27.7</b>
<b>Profit before impairment</b>	<b>25.1</b>	<b>38.2</b>
Provision for Impairment	3.8	1.7
<b>Profit attributable to shareholders of the Bank</b>	<b>21.3</b>	<b>36.5</b>
<b>Total Assets</b>	<b>5,906</b>	<b>3,973</b>
<b>Total Liabilities</b>	<b>3,550</b>	<b>1,744</b>
<b>Equity attributable to shareholders of the Bank</b>	<b>1,048</b>	<b>1,085</b>

## Balance Sheet - Q1 2019

US\$ m	Q1 2019	YE 2018	Q1 2018
Cash and bank balances	541.9	341.6	193.9
Treasury portfolio	1,477.2	818.0	419.6
Financing assets	1,272.6	1,208.9	1,195.9
Real estate investment	1,824.9	1,840.0	1,516.4
Proprietary investment	271.3	234.0	249.2
Co-Investments	77.6	77.6	77.0
Assets held-for-sale (AHFS)	147.1	147.1	-
Receivables & prepayments	269.5	229.1	203.5
Property and equipment	24.1	92.9	117.4
<b>TOTAL ASSETS</b>	<b>5,906.1</b>	<b>4,989.2</b>	<b>3,972.9</b>
Clients' funds	41.0	46.6	35.2
Placements from FI & non-FI	2,598.1	1,628.4	842.0
Customer current accounts	161.5	177.9	188.7
Term financing	238.2	256.2	367.0
Liabilities directly associated with AHFS	42.7	42.7	-
Payables and accruals	468.3	517.9	311.0
<b>TOTAL LIABILITIES</b>	<b>3,549.9</b>	<b>2,669.7</b>	<b>1743.9</b>
<b>EIAH</b>	<b>947.2</b>	<b>896.9</b>	<b>812.3</b>
Total Equity attributable to shareholders of Bank	1048.4	1058.8	1084.9
Non-controlling interest	360.7	364.0	331.8
<b>Total Liability, EIAH &amp; Equity</b>	<b>5,906.1</b>	<b>4,989.4</b>	<b>3,972.9</b>

# Contributions by business lines - Q1 2019



- Investment banking income
  - Proprietary and co-investment income
  - Treasury and Other income
- Commercial Banking income
  - Real Estate Income

- Proprietary investments: Exit of 40% stake in Al Areen Hotel. The exit of the Hotel is in line with the strategy of the Group to diversify the asset base and exit at opportunities.
- Treasury business line: Generating revenues from the deployable liquidity available with the Bank, primarily from inter bank placements, Sukuks and structured notes.
- Harbour Row project in the Bahrain Financial Harbour, on which 66% works completed and sale of 70% of a Hotel Tower
- Launched couple of deals in Investment banking during the first quarter of 2019, extended closure of investment funds, which are expected to realise during Q2.
- Establish the education platform in the second quarter of 2019 allowing the Group to better capture and leverage opportunities in this defensive segment.
- Khaleeji Commercial Bank continued with stable performance even when faced with significant headwinds and a conservative provisioning policy leading to drop in contribution compared to previous period

# Key ratios

## Profitability ratios (Standalone)

Q1 19	Q4 18	Q3 18	Q2 18
Return on Equity			
2.04%	0.94%	2.68%	3.06%
Return on Assets			
0.36%	0.38%	1.43%	1.84%

## Liquidity ratios (Standalone)

Q1 19	Q4 18	Q3 18	Q2 18
Debt to Equity Ratio			
2.16	1.20	0.67	0.54
Net Debt to Equity Ratio			
0.92	0.71	0.56	0.44

## Regulatory ratios (Consolidated)

Q1 19	Q4 18	Q3 18	Q2 18
Capital Adequacy Ratio			
15.6%	15.2%	17.8%	22.2%

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Thank you  
Q & A



## **GFH Webcast on Q1 2019 Financial Results**

### **Attendees from GFH Financial Group:**

#### **Mr. Surya Hariharan (Head of Financial Control)**

Good afternoon Ladies and Gentlemen. I, Surya Hariharan, Head of Financial Control, on behalf of the GFH management team welcome you to GFH Financial Group's financial results presentation for the quarter ended 31 March 2019.

At the outset, we are pleased to present to you the Group's financial results for the first quarter ended 31 March 2019, which have marked another period of profitability and contributions from across business lines, against the backdrop of challenging market conditions that have impacted the region and global markets. The decrease in net profits is attributed primarily due to lower contribution from the Group's commercial banking arm and extended closure of investment funds, which are expected to realise during quarter 2.

Let me start the session with the key performance highlights from the income statement for the first quarter of 2019.

Total operating income of the Group was \$70.1m for the first quarter of 2019 compared to \$65.9m, an increase of 6.4%. This increase is primarily driven by the increased contribution from Proprietary investments, Treasury, and Real Estate business lines.

Total operating expenses of the Group, inclusive of finance expenses, was \$45.1m for the first quarter of 2019 compared to \$28.4m for the comparative period, an increase of 58.8%. This increase is primarily due to increase in the finance expenses driven by the increased money market funds taken by the Bank during the period as part of the new Treasury business line.

Net profit attributable to the shareholders of the Bank for the first quarter of 2019 was \$21.4m compared to \$36.5m for the comparative period in 2018, a decrease of 41.4%.

Consolidated net profit of the Group for the first quarter of 2019 was \$20.7m compared to \$36.9m for the 3 months ended 31 March 2018, a decrease of 43.9%.

Impairment provisions for the Group stood at \$3.8m for the first quarter of 2019 compared to \$1.7m for the comparative period in 2018, an increase of 123.5%, primarily from the commercial banking subsidiary of the Group.

Earnings per share slightly decreased in Q1 2019 to 0.61 US cents from Q1 2018 levels of 1.02 US cents in line with the earnings.



On the balance sheet, the key highlights were as follows:

Total assets of the Group have increased to \$5.9bn at 31 March 2019 from \$4.9bn at 2018 year end, an increase of 20%, primarily on account of increase in liquid assets of the Bank. Liquid assets of the Bank increased to \$1.6bn at end of first quarter of 2019 compared to \$614m at the end of 2018.

Total liabilities of the Group have increased to \$3.5bn at 31 March 2019 from \$2.7bn at 2018 year end, an increase of 30%, primarily due to the increase in the money market funds raised by the Bank. Money market funds raised by the Bank at 31 March 2019 is \$2.1bn compared to \$1.0bn at 31 December 2018, an increase of 110%, which underscores the trust that the market and clients are placing in GFH's creditworthiness. The growing deposit base has resulted in a leverage ratio of 2.16x and a net leverage ratio of 0.92x.

Equity attributable to shareholders of the Bank was \$1.05bn at 31 March 2019 compared to \$1.06bn at 2018 year end. This is due to reduction in retained earnings by \$30m for dividends approved by shareholders.

Most business lines across the Group have delivered strong performances during 2018, with further details on the major developments achieved within each business line to follow:

Proprietary investments contributed 42% to the operating income of the Group, primarily from the exit of 40% stake in Al Areen Hotel. The exit of the Hotel is in line with the strategy of the Group to diversify the asset base and exit at opportunities.

Treasury business line is a new stream of business which was developed towards the end of 2018 with the intention of generating revenues from the deployable liquidity available with the Bank. This business line contributed 16% to the operating income of the Group, an increase of 465% compared to first quarter of 2018, primarily from interbank placements, Sukuks and structured notes.

GFH's real estate activities continued to advance key landmark projects across the GCC, MENA region and India in the first quarter of 2019. The Harbour Row project located in the Bahrain Financial Harbour, has made significant progress this year in terms of construction and sale of units. Onsite works reached approximately 66% completion and we were able to achieve sale of 70% of a Hotel Tower in the development. Based upon percentage of completion, the Group has realized income of \$8 million during quarter 1 of 2019, which is an increased by 110% compared to first quarter of 2018.

We have launched a couple of deals in Investment banking during the first quarter of 2019, revenues from which will be recognized during the future quarters. GFH plans to establish the education platform in the second quarter of 2019 allowing the Group to better capture and leverage opportunities in this defensive segment. We also have an exciting pipeline of both



regional and international transactions, which will be presented to our investors during coming quarters of 2019.

In Commercial Banking, our subsidiary Khaleeji Commercial Bank continued with stable performance even when faced with significant headwinds and a conservative provisioning policy, reporting total net income to shareholders of \$0.4m versus \$2.1m during quarter 1 of 2018

GFH's strategy of moving to a group structure with various business lines is also showing progress. Different business lines will drive the growth during the various quarters and we expect the revenue streams to be diverse going forward. GFH's Q1 2019 results, which translate into an annualised return on equity of 8.16%, are a testament to the enduring success of the strategy adopted by the Group.

The global and regional markets currently pose challenges across the wider spectrum, however we at GFH look forward to strong future results, improved profitability and returns for our shareholders. We expect all of our business lines to continue their strong performance; with investment banking closing and placing further unique investment transactions for our investors, the real estate business expecting to realize further cash flows and profitability for the Group, Treasury business lines continuing its growth trajectory and the Commercial banking business looking to improve on its operating profitability

I would like to thank you for your time this afternoon and open the floor for any questions you might have.

**Question 1:**

Commercial Banking you expected before growth profit in this sector but the result become worse what is you plan in this issue?

Cash money exceed \$600 million why you don't make big acquisition to keep sustainability, profit growth and to avoid volatility?

You mention in your clarification about extended closure fund are expected to realise during Q2 does this mean Q2 profits will be with growth compared of Q2 2018?

**Answer:**

Given the global and regional challenges and conservative provisioning policy, commercial banking has not performed as expected.

The liquidity is currently being used for the treasury business line. However, we are open for acquisitions.

We have launched investment products during Q1 2019 and we expect to realise these revenues in Q2 2019.

**Question 2:**

Can you provide us with the update on divestment of real estate assets?



**Answer:**

In Q1 2019 we have exited a partial stake in Al Areen Hotel and we have also sold some portion of Harbour Row. The plan is to continue to seek opportunities for exiting real estate.

**Question 3:**

Thank you for the call can you please explain sharp rise in finance expenses.

**Answer:**

This is part of the Treasury business line and GFH has been successful in raising money market funds which lead to the increase in the finance expenses.

**Question 4:**

What is the impact on bottom line as a resultant sale of Harbour Row and Moroccan asset sale?

**Answer:**

Income from sale of Harbour Row is already reflected in the Real Estate income. Moroccan asset sale has some conditions to be fulfilled before we can recognise income.